Class: B.Com (Hons)   Semester III

Subject : BCH 3.1 AUDITING AND CORPORATE GOVERNANCE

7.Topic: Audit of Limited Companies

7.1: Introduction

"Audit" means to examine something thoroughly. Auditing is an independent inspection of the financial information of any organization; whether profit-oriented or not profit-oriented, irrespective of its legal form, status or size when such examination is conducted with a view to express an opinion thereof".

Auditing of book of accounts means verification of accounts by an independent professional to ensure that the accounting has been carried as per the relevant regulatory requirements and to check the veracity of transactions and make an opinion whether the books of Accounts shows a true and fair view of financial transactions by the business.

According to the Companies Act, it is mandatory for all the companies registered in India to maintain books of accounts and get it audited by a Chartered Accountant in practice every year after closing of each financial year. A limited company has to close its accounts every financial year and prepare the financial statements prepared as per the books of accounts depicting true and fair view of the affairs of the company. The financials shall then be audited by the statutory auditor and has to be placed before the members for approval.

7.2: Types of Audits

- **Statutory Audit**

Statutory audits are conducted in order to know the state of a company's finances and accounts to the Indian government. Such audits are performed by qualified auditors those who are working as external and independent parties as well. The audit report of a statutory audit of Private Limited Companies is made in the form prescribed by the government agency. Therefore, the Statutory audit is mainly done to know the actual economic status of the respective firm.

- **Internal Audit**

The Internal audits which are conducted at the will of the internal management in order to check for the health of the company's all the finances and analyze the operational efficiency of the organization. Internal audits may be performed by an independent party or by the company's own internal staff. However, Internal Audit is beneficial to know all the finances of the internal management and to make any required changes to increase the operational efficiency.

7.3: Statutory Audit in India

In India, the respective audit is taken place during each financial year i.e, April 1 to March 31. There is the two below-mentioned type of statutory audits carried out in Private Limited Companies in India:

1. Tax Audit
2. Company Audit

- **Tax Audit**

The Tax audits suggest that every person whose business turnover exceeds INR 1 crore and every person working in a profession with gross receipts exceeding INR 25 lakh must have their accounts audited by an independent chartered accountant. Therefore, tax audit an important component audit of Private Limited Companies It should be taken care that the provision of tax audits are applicable to everyone, be it an individual, a partnership firm, a company or any other entity. However, the tax audit report is to be obtained by September 30 after the end of every previous fiscal year. Non-compliance with the tax audit provisions may attract a penalty of 0.5 percent of turnover or INR 1 lakh, whichever option is the lowest. Also, there is no rule for removal of Tax Auditors.

- **Company Audit**

In the audit Private Limited Companies the provisions for a company audit are always contained in the Companies Act, 1956. The companies irrespective of their nature of business or turnover must have its annual accounts audited each fiscal year. For this purpose, the company and the directors of the company have to first appoint an auditor at the outset. Hence at each annual general meeting (AGM), an auditor is appointed by the shareholders of the company who will hold the position from one (AGM) to the conclusion of the next AGM. In individual as well as the partnership firms, the same auditors cannot be appointed for more than one or two terms. Therefore, after the completion of the term, the auditor should be always be changed.

Only an independent chartered accountant or a partnership firm of chartered accountants can be appointed as the auditor of a company. The following persons are specifically disqualified from becoming an auditor as per the Companies Act:

1. Corporate Body
2. An Officer or an Employee
3. Superior of the employees or partner with an employee of the company.
4. Any person who has guaranteed to the company on behalf of another person a sum exceeding INR1,000 or is indebted to a company for a sum exceeding INR1,000.
5. Anybody who has held their any type of securities in the company after one year from the date of commencement of the Companies Act, 2000.

7.4: Functions of Audit

Given below are some of the important functions of auditing :

- Review and Evaluate the risk management so that changes are made accordingly.
- Evaluate the relevance, reliability of management, financial information and internal control systems.
- Provides recommendations on the operational and management procedures of the company.

7.5: The Frequency of Internal Auditing

Mentioned below are the points that suggest how frequent the internal auditing must be done in any Private Limited Companies There are no hard set rules for an internal auditing of the organization. Often the type of auditing procedures that will be performed will have an impact on the frequency of when an internal audit should be done in the organization.

1. There are also a variety of other factors that will control how often there is a need for internal auditing.
2. The internal audits are performed for quality assurance of products that will be shipped out to customers. There can be a set of control measures that require internal auditing of products. As well as the production procedures on a weekly or on a monthly basis.
3. If the company wishes to evaluate the management systems to determine whether processes. The objectives are meeting company policies and regulatory compliance. They can have them performed on a quarterly basis or twice yearly.

7.6: Company Annual Filing

Every Company registered under Companies Act is required to file their returns with the Registrar of Companies annually.

Company annual filing refers to the Filing of Audited Annual Financial Accounts of the Company along with Directors Report and Annual Return of Company with Registrar of Companies. These yearly filings are mandatory for every registered Company whether the Company carries on business or not.

7.5.1: Penalty for Contravention

- The company shall be punishable with fine not be less than Rs.25,000.00 which may extend to Rs.5,00,000
- Every officer of the company shall be punishable with imprisonment for a term 1 year or with fine not less than Rs10,000.00 which may extend to Rs.1,00,000.00, or with both.

- The auditor shall be punishable with fine not less than Rs.25,000. but which may extend to Rs.5,00,000.00 or 4 times the remuneration of the auditor, whichever is less.

Further, if it is done knowingly or wilfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term of 1 year and with fine not less than Rs.50,000.00 which may extend to Rs.25, 00,000.00 or 8 times the remuneration of the auditor, whichever is less.

Further the auditor convicted as mentioned above shall be also liable to refund the remuneration received by him to the company and pay for damages to the company/statutory bodies/authorities/ to members/creditors of the company.

If the partner or partners of the audit firm have acted in a fraudulent manner/colluded/abetted for action of company or directors, the concerned partner shall be liable whether civil or criminal as provided in this Act jointly and severally.

7.6:Conclusion

Typically, the schedule of an Audit of Private Limited Companies is cyclical. In reviewing all the annual plans, the auditor should properly explain the appropriateness of the institution's audit cycle. The audit planning and scheduling are also based on the outcomes of risk assessments performed at least once annually. However, when residual risk is equal to or exceeds the institution's stated risk appetite for a given subject. The best practices suggest that the subject is audited no less than once annually and more often as deemed necessary.
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